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ACTION #

EAB/EB2 CA3 OER3 CRG/GER, SIG/IC, NID/E

T 120217

EIA163

PAGE 01

NC 24847

TOR:260721Z AUG 77

R 260605Z AUG 77

FM USLO PEKING

TO RUEHC/SECSTATE WASHDC 8548

INFO RUMJDH/AMCONSUL HONG KONG 5175

RUKQGS/AMEMBASSY SINGAPORE 377

RUEHTP/AMEMBASSY TAIPEI 1232

RUEHKO/AMEMBASSY TOKYO 2452

BT

CONFIDENTIAL SECTION 1 OF 2 PEKING 01878

E.O. 11652: GDS

TAGS: ECON, PINT, CH

SUBJECT: ECONOMIC POLICY AND THE 11TH PARTY CONGRESS

1. SUMMARY: STATEMENTS ON ECONOMIC POLICY AT THE 11TH PARTY CONGRESS SUPPORT PREVIOUSLY SET ECONOMIC POLICIES OF THE HUA GOVERNMENT--NOTABLY PRIORITY ATTENTION TO AGRICULTURE, ACCELERATED DEVELOPMENT OF BASIC INDUSTRIES, STRENGTHENING OF SCIENTIFIC AND TECHNOLOGICAL TRAINING, REDUCTION OF ADMINISTRATIVE COSTS AND IMPROVED LIVING STANDARDS ON THE BASIS OF INCREASED PRODUCTION. IT IS UNCLEAR WHAT, IF ANY, CHANGES IN ECONOMIC POLICIES WILL FOLLOW THE OFFICIAL END OF THE CULTURAL REVOLUTION; ALTHOUGH SORELY NEEDED CHANGES ARE IN STORE IN EDUCATION.

WAGE POLICY MAY BE ONE OF THE MOST DIFFICULT ECONOMIC ISSUES FACING THE HUA GOVERNMENT. END SUMMARY.

2. WHILE IT PRODUCED NO NEW DEPARTURES IN ECONOMIC POLICY, THE 11TH CCP CONGRESS PUBLICLY SANCTIONED THE MAIN THEMES OF THE PREVIOUSLY ANNOUNCED POLICY OF THE HUA GOVERNMENT AND WENT SO FAR AS TO WRITE THE "FOUR MODERNIZATIONS" INTO THE PARTY CONSTITUTION.

THE CONGRESS ALSO PORCLAINED THE END OF THE CULTURAL REVOLUTION, BUT THIS WAS NOT PUBLICLY ASSOCIATED WITH ANY CHANGES IN ECONOMIC POLICY. ECONOMICS GOT CONSIDERABLE SPACE IN CONGRESS DOCUMENTS AND IN THE AUGUST 22 JOINT EDITORIAL. MAJOR ECONOMIC LINES OF THE HUA GOVERNMENT WERE REITERATED--PRIORITY ATTENTION TO AGRICULTURE, ACCELERATED DEVELOPMENT

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OF BASIC INDUSTRY, STRENGTHENING OF SCIENTIFIC  
AND TECHNICAL TRAINING, REDUCTION OF NON-  
PRODUCTIVE PERSONNEL AND ~~IMPROVED LIVING~~  
STANDARDS FOLLOWING INCREASED PRODUCTION.

3. DESPITE THE FAMILIARITY OF THESE THEMES,  
CERTAIN ASPECTS OF THEIR PRESENTATION ARE  
NOTEWORTHY:

--MODERNIZATION AND MILITARY POWER. HUA'S  
POLITICAL REPORT CLEARLY INDICATED THAT MILITARY  
MODERNIZATION DEPENDS ON ECONOMIC DEVELOPMENT.

THE JOINT EDITORIAL REITERATED THIS POINT.

--RAISING LIVING STANDARDS. THE COMMITMENT  
TO RAISING LIVING STANDARDS ON THE BASIS OF  
PRODUCTION WAS MADE CLEAR, BUT CONGRESS  
DOCUMENTS ARE DEVOID OF HINTS ABOUT HOW THIS  
WILL BE DONE. HUA'S REPORT ENDORSES THE LONG-  
STANDING SOCIALIST PRINCIPLE "TO EACH ACCORDING  
TO HIS WORK" BUT IMPLIES THAT THIS SHOULD LEAD  
TO ENHANCED "COLLECTIVE" RATHER THAN INDIVIDUAL  
WELFARE.

--STRENGTHENING SCIENCE AND TECHNOLOGY.

SCIENTIFIC RESEARCH WAS TERMED "VITAL" TO  
ECONOMIC CONSTRUCTION AND THE GANG OF FOUR'S  
"SABOTAGE" WAS CONDEMNED. THE CREATION OF A  
CORPS OF SCIENTISTS TO BE A LEADING AGENT IN  
ECONOMIC CONSTRUCTION IS TO BE TACKLED IN  
EARNEST," AND A NATIONAL CONFERENCE ON SCIENTIFIC  
WORK IS TO BE CONVENED "AT AN APPROPRIATE TIME."

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PAGE 01

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C O N F I D E N T I A L SECTION 2 OF 2 PEKING 01878

4. CONFERENCE DOCUMENTS PAID ALLEGIANCE TO

MAO'S LINE AND CONTAINED SOME STRONGLY-WORDEDADMONISHMENTS ABOUT SAFEGUARDING SOCIALIST

PUBLIC OWNERSHIP AGAINST ATTACKS BY URBAN AND

RURAL CAPITALIST ROADERS, AT THE SAME TIME,

A MORE MODERATE AND PRAGMATIC APPROACH WAS

TAKEN TO CURRENT PROBLEMS. THE PRE-EMINENT

NEAR-TERM (1980) OBJECTIVES REMAIN BUILDING

"AN INDEPENDENT AND FAIRLY COMPREHENSIVE

INDUSTRIAL AND ECONOMIC SYSTEM," BASIC

MECHANIZATION OF AGRICULTURE, AND CREATION OF

THE INDUSTRIAL CONDITIONS NECESSARY FOR FURTHER

ECONOMIC EXPANSION DURING THE SIXTH FIVE-YEAR

PLAN (1981-1985). HUA REPEATED EARLIER CALLS

TO TURN ONE-THIRD OF THE COUNTRY'S ENTERPRISES

INTO ADVANCED TACHING ENTERPRISES AND A THIRD

OF THE COUNTIES INTO ADVANCED TACHAI.

COUNTIES DURING THE CURRENT FIVE-YEAR PLAN PERIOD.

HUA MADE SPECIAL MENTION OF THE NEED TO ACHIEVE

"CONSIDERABLE INCREASES" IN AGRICULTURAL AND

SIDE-LINE PRODUCTION. REALIZATION OF THE MAOIST

OBJECTIVE OF ELIMINATING THE "THREE GREAT

DIFFERENCES" (I.E., BETWEEN TOWN AND COUNTRY,

BETWEEN AGRICULTURE AND INDUSTRY AND BETWEEN

PHYSICAL AND MENTAL LABOR WAS RELEGATED TO THE

DISTANT FUTURE.

5. REVIEWING ECONOMIC PERFORMANCE SO FAR

THIS YEAR, HUA STATED THAT SINCE MARCH

"INDUSTRIAL PRODUCTION, THE VOLUME OF

TRANSPORT, STATE PURCHASES AND SALES OF

COMMODITIES AND STATE REVENUES HAVE ALL GONE

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UP," SETTING NEW RECORDS, AND CLAIMED THAT "GROSS VALUE OF INDUSTRIAL OUTPUT FOR JUNE SURPASSED THE HIGHEST MONTHLY LEVEL OF THE PAST." IN AGRICULTURE, "LOSSES HAVE BEEN CONSIDERABLY REDUCED AND A FAIRLY GOOD HARVEST OF SUMMER GRAIN GATHERED IN MANY AREAS."

(NOTE: NCNA AUGUST 24 REPORTED THAT GVIO IN JULY SHOWED A 22.4 PERCENT INCREASE OVER JULY OF LAST YEAR AND SURPASSED THE PREVIOUS PEAK FOR THAT MONTH. NO JUNE-JULY COMPARISON WAS MADE, HOWEVER.)

6 COMMENT: THE IMPLICATIONS FOR ECONOMIC POLICY AND CONSTRUCTION OF THE OFFICIAL ENDING OF THE CULTURAL REVOLUTION ARE NOT YET CLEAR. AT A MINIMUM, IT WILL MAKE EASIER THE ON-GOIN REVERSAL OF THE POLICIES WHICH HAVE HELD BACK DEVELOPMENT OF QUALIFIED SCIENTISTS AND TECHNICIANS SINCE THE MID-SIXTIES. IT MAY EVENTUALLY MAKE EASIER THE ESTABLISHMENT OF MORE EFFECTIVE MATERIAL AND NON-MATERIAL INCENTIVES IN BOTH THE INDUSTRIAL AND AGRICULTURAL SECTORS.

7. IT IS CLEAR THAT THE REGIME APPRECIATES THE ECONOMIC PROBLEMS IT FACES. HUA'S REMARKS ON ECONOMIC PERFORMANCE SO FAR THIS YEAR STRONGLY SUGGEST SLOW RECOVERY IN INDUSTRY AND CONTINUING SHORTFALLS IN AGRICULTURE. AUGUST RED FLAG ARTICLES INDICATE THAT A CRACKDOWN ON FISCAL LASSITUDE AT THE ENTERPRISE LEVEL IS IN PROGRESS--SPURRED, NO DOUBT, BY SERIOUS STATE REVENUE SHORTFALLS LAST YEAR AND PERHAPS THIS YEAR AS WELL. UNDER THESE CIRCUMSTANCES, THE QUESTION OF WAGE ADJUSTMENTS MUST RANK AS ONE OF THE MOST DIFFICULT FACING THE NEW POLITBURO. MATERIAL INCENTIVES IN THE FORM OF INDIVIDUAL PRODUCTION BONUSES WOULD FIT OBJECTIVE ECONOMIC REQUIREMENTS BUT WOULD BE A DIFFICULT STEP POLITICALLY. A GENERAL WAGE INCREASE FOR LOWER WAGE-EARNING CLASSES WOULD BE POLITICALLY MORE PALATABLE, BUT PROBABLY MUCH MORE EXPENSIVE.

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